

CEOs at the Vanguard of Sustainable Growth

By Rachael De Renzy Channer and Catherine Zhu



“Business leaders need to think more about the changing expectations of society—the winner takes all view of business, the levels of inequality that the pandemic has exposed within and between countries, environmental change as an existential risk not a theoretical one. The world is changing, and business needs to change with it.”

This comment, from one of nearly 1,000 CEOs who participated in Egon Zehnder’s recent global CEO survey, underscores the increasing urgency that many business leaders feel about addressing environmental, social, and governance (ESG) matters. Adaptation, mitigation, and social equity are just a small number of the considerations that CEOs are incorporating into their ESG thinking.

But it can be difficult to act on these imperatives—because the metrics and incentives that drive CEOs’ decision-making still overwhelmingly emphasize traditional financial and growth priorities. In addition to continued pressure from the market to deliver financial results above all else, CEOs seeking to lead fundamental change must often contend with skepticism and fear from their boards and executive teams.

As one CEO told us: “I feel like I’m stuck between a rock and a hard place.”

Despite these challenges, a sizeable minority of CEOs—one in four of those who participated in our survey—say that sustainability is already a major driver of their decisions. In this article, we shine a spotlight on these CEOs at the vanguard of the transformation to sustainable business.

We note that these vanguard CEOs are currently concentrated in larger, public companies and in industries and regions where governments have placed a strong focus on ESG. Yet the practical steps these leaders are taking to reshape their businesses could point the way for other firms. Provided sufficient numbers of CEOs have the courage and conviction to take a stand, a large-scale shift to sustainable business is possible.

Meet the CEOs at the vanguard of ESG

Even as public expectations of business stretch far beyond profit, ESG concerns remain low on the list of priorities for most CEOs. As we show in our recent report, “**It Starts with the CEO**,” our survey respondents ranked ESG last in order of importance among the metrics that drive CEOs’ decision-making. Moreover, two-thirds of CEOs say that the metrics that steer their decisions have stayed consistent over the past several years—despite the arrival of novel challenges and disruptions.

Yet the aggregate picture conceals a stark variation: 27 percent of the CEOs we surveyed rank ESG among their top drivers of decision-making—in first, second, or third place.

A sizeable minority of CEOs say ESG is a major decision driver—but most of their peers rank it last

Q. Which metrics drive your decisions today, in order of importance? All respondents

- 1st Financial**
(e.g., profitability, TSR, share price, sales)
- 2nd Growth**
(e.g., market share, M&A, geographic expansion)
- 3rd Talent management**
(e.g., considerations linked to diversity, leadership capability)
- 4th Innovation**
(e.g., new technologies, % profit from new products, R&D budget)
- 5th Health and Safety**
(e.g., incident rates, % improvement, stress-related absence)
- 6th Environmental, Social and Governance**
(e.g., carbon footprint, diversity & inclusion, human rights concerns, social activism)

27%
of CEOs rank
Environmental,
Social and Governance
1st, 2nd and 3rd

Source: Egon Zehnder global CEO survey, 2021. N=975

One example of such a leader at the vanguard of sustainable business is a global industrial CEO with whom we have worked. Recognizing his industry's negative environmental impact and the urgency of shifting to a more sustainable model, he embarked on a bold strategy to divest traditional operations and invest in clean technologies and low-carbon businesses.

The market did not applaud this new approach: the company's share price was cut in half. Yet the CEO stayed the course: he marshalled the support of the board for a long-term transformation of the business, parted ways with executives who did not have the willingness to change and renewed his leadership team. He drew energy from the fact that his company had adopted one of the most radical sustainability strategies in its industry—and that competitors were beginning to follow suit. Being at the vanguard is tough and requires determination and resilience.

In fact, our **research** shows that a commitment to environmental and social sustainability is becoming the norm in several key segments. From our CEO survey, we know that CEOs who rank ESG as one of their top-three decision drivers are more likely than others to:

- Lead the *largest companies*: nearly half of CEOs leading companies with revenues greater than \$20 billion are in the vanguard group—compared to just one-fifth of CEOs leading companies with revenues under \$1 billion.
- Run *public companies*—and significantly less likely to lead family-owned or private companies.
- Work in *Europe* or run a European headquartered business.
- Head companies in the *Industrial sector*—and much less likely to work in Consumer, Healthcare & Pharma, or Tech.
- Be *aged 60+*.

It appears, then, that some of the world's leading companies—mostly publicly traded, highly visible firms—are leading the way toward sustainability.

The dual transformation: organization and self

When we sit down with CEOs who are strongly committed to sustainability, many speak of the need for a dual transformation: profound changes in their organizations and themselves. These leaders are focused on deeply developing themselves and the people, strategies and operations of their organizations—recognizing that this is a prerequisite for lasting systems change and long-term business performance.

Delivering on daily business goals (“perform”) depends increasingly on investment in previously unimagined solutions (“transform”). Transformed businesses are **more likely to be ambitious and expansive**, and to respond imaginatively to the changed expectations of their customers and stakeholders.

One CEO captured the organizational and personal imperative of this transformation in these words:

“It is a critical time to reflect on what the future should be and how we as leaders can contribute. We will be emerging from this debilitating pandemic—but will be going into the colossal impact climate change will invoke on the planet and people. Yet we have human ingenuity and innovation driving technology to new heights, allowing us to achieve unimaginable feats—much of which can be harnessed for the good. The question for us leaders is to figure out where and how we can contribute the most.”

As for the CEOs who do not currently prioritize sustainability, over three-quarters of these CEOs strongly endorse the need to transform themselves as well as their organizations—a

figure not far from that of CEOs who do prioritize ESG. Perhaps that bodes well: CEOs whose businesses are still governed by traditional metrics do recognize the need to change, and they have many ESG-focused peers to learn from.

Such CEOs might draw inspiration from Mark Carney, former governor of the Bank of England and the Bank of Canada and UN Special Envoy on climate action and finance, whose recent book spotlights the opportunity that transformation offers leaders: “A decade or so ago, transformative leadership... was to ‘make the weather.’ Now leaders can literally change the climate. Such ambition is the best of purpose-driven capitalism.”

From commitment to action

How are leaders of sustainability translating their commitments into action? What does a successful transformation to sustainable business look like in practice? Our conversations with leaders at the vanguard of sustainability point to three key actions:

Think boldly about the future

First, these CEOs *accept that sustainability is non-negotiable*. For these leaders, sustainability is as essential as safety, and should help determine how companies allocate resources, prioritize projects, and get funding. As one CEO said: “We’re now facing a different type of challenge—not how to produce more, or how to reduce cost. Rather, how can we continue to fulfill society’s needs while embracing the full cost and our full impact, and taking the responsibility to seek answers that make for a healthy planet? There are no jobs on a dead planet. There is no business on a dead planet.”

These leaders also *insist on long-term thinking*, instituting KPIs that emphasize long-term action, and embracing the short-term cost of being a long-term winner. They also *broaden the concept of growth*, from a purely quantitative phenomenon of volume, sales or profit to a qualitative and inclusive notion of sustainable growth.

Such bold, long-term thinking can contribute toward an organization’s thriving in many ways. For example, one CEO remarked to us that talented people are drawn to work at a place with a strong purpose, “so that they feel that they belong, they feel alive, they feel proud of going to work.”

Focus and align everyone on the sustainability goal

A crucial focus for these CEOs is to *build strong shared commitment and alignment with boards and executive teams*, so the entire leadership group is ready to tackle the challenging journey of transformation to sustainable business. As one CEO told us: “We need to bring this stuff out from the old CSR report, and ensure it’s at the core of what the boards talk about and what non-executive directors feel equipped to discuss.”

This focus on alignment extends to the whole organization. CEOs at the vanguard of ESG *share the vision across the company* clearly and simply, making the effort to ensure that everyone understands their role in advancing sustainability. For instance, as the leader of a large chemicals firm told us:

“Anyone in our factory will explain what they’re doing in terms of how they’re contributing towards sustainability. They might say, ‘I’m making a chemical that goes into the insulation for refrigerators, which means that food lasts longer. It’s the most efficient insulation on the planet.’”

To reinforce this understanding, effective CEOs also *set bold sustainability targets*, making commitments that drive substantial change. And they make sure they *measure impact*, even when it’s hard, increasing the capacity to measure phenomena in the value chain, and the ability to drive sustainability.

Open the aperture for solutions

Very often, a transformation to sustainable business means embarking across uncharted territory. CEOs at the vanguard of transformation encourage their teams to *experiment courageously* and be willing to fail for the sake of rapid progress. They *embrace imperfect transitional approaches* when perfection is elusive. And they *value existing solutions* as well as innovations, not overlooking helpful technologies and processes that can already be applied.

Moreover, CEOs increasingly recognize that they have the responsibility to engage a broader set of stakeholders *in the transformation to sustainability*—including customers, suppliers, industry associations, and governments and regulators.

Many ESG-focused CEOs acknowledge that the regulatory frameworks in their countries have driven progress in their companies and industries; for instance, the European Green Deal commits the European Union to becoming the first climate-neutral continent. That said, CEOs in all regions are stepping up to meet the imperative of sustainability, often taking the lead where governments are still debating the way forward.

It starts with the CEO

The CEO has many responsibilities, and massive complexity to contend with. It might be tempting to imagine that accountability for driving sustainability can be delegated—for example, to the Chief Sustainability Officer, a role that we are seeing established in a wide variety of companies. On the other hand, it might be comfortable to rely on the truism that sustainability is everyone’s responsibility, on the board, in the executive team and across the organization.

Leaders at the vanguard of ESG make it clear that broader responsibility does not detract from their own laser-sharp focus on the imperative of our time. When it comes to driving sustainability—progress that demands a great marshalling of stakeholders across the system—it starts with the CEO.

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